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計畫主持人：劉啟群

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This paper presents some empirical evidence of motivations of bank securitization activities. There have been only a few empirical papers in this field of research (Dionne and Harchaoui, 2003; Calomiris and Mason, 2003). Dionne and Harchaoui (2003) empirically investigate banks' capital, securitization and credit risk in Canada, while Calomiris and Mason (2003) explore the relationship of bank credit card securitization and regulatory arbitrage. Securitization is the process of repackaging financial assets and selling certificates, or securities to investors who are entitled to some or all of the repayments on the financial assets. More precisely, the assets are pooled and the cash flows from the assets in the pool pay off the interest and principal on the securities. Such securities can be openly traded in financial markets or privately placed with smaller numbers of buyers. The securitized financial assets of a bank can be loans to bank customers, accounts receivable, mortgages to home buyers, leases to equipment renters, credit-card debt or rental income from properties. The common method of securitizing assets is to sell them through a separate organization. Depending on its particular legal structure and the situation, this entity goes by various names: special-purpose vehicle, special-purpose corporations, special-purpose entity, conduit or trust. Their one similarity is that each is legally distinct from the originating firm. This separation contributes to one of the advantages of securitization. Normally, when a company raises capital through debt or equity, lenders and investors look solely to the issuing company for payment. Asset securitization, in contrast, separates the source of repayment from the originating company by

transferring its financial assets to a special-purpose vehicle that is isolated and, thus, protected from bankruptcy, insolvency or other financial difficulties that may affect the first firm. People who invest in the securities buy into the cash flows generated by the assets rather than the profitability of the initial business.

The market for securitization of bank financial assets is growing very fast. Securitization has already transformed bank lending activities. This financial innovation has caused a revolutionary change in lending over the last 20 years by allowing lenders to sell loans that they had previously held to maturity. But the implications of the trend to securitize for the banking industry are still unfolded. The rapid increase in securitization is mainly driven by the market forces. More specifically, the explosion in securitization is partly due to the benefits it produces for borrowers, investors and lenders and partly due to technological innovations that lowered the costs of securitizing assets. There are commentators who feel that securitization has tempted banks to securitize their prime assets to gain "regulatory arbitrage", that is, lower capital requirements as opposed to holding assets on the banks' balance sheets.

Except for Calomiris and Mason (2003), there are no other empirical papers examining the determinants of bank securitization activities in the United States. Calomiris and Mason (2003) explore the motivations and desirability of securitization of credit card receivables held by banks, and find that securitization results in some transfer of risk out of the originating bank but that risk remains in the securitizing bank as a result of implicit recourse. Furthermore, their results support the efficient contracting view of

securitization with implicit recourse. That is, securitizing banks set their capital relative to managed assets according to market perceptions of their risk. Dionne and Harchaoui (2003) empirically investigate the relationship between securitization, capital regulation and banks' risk in Canada. Their main findings indicate that securitization activities have positive impact on banks' risk, and affect negatively the level of capital ratio. Our study complements Calomiris and Mason (2003) and Dionne and Harchaoui (2003), and contributes to the understanding of incentives of bank securitization activities in several areas. First, we empirically examine the determinants of bank securitization activities including both credit card receivables and all other financial assets. Second, we use more recent data years. Third, we use the public information disclosed in financial reports, which is available to all investors.

Our empirical results are summarized as follows. The negative relationship between capital ratio and securitization activities imply that banks don't need to conform to the capital adequacy requirement on the assets securitized. So the less the capital is, the more the securitizations are. The results show that those banks with larger size are more likely to engage in securitization activities because they have the capability to assume the cost of securitization. Also consistent with our hypothesis is our finding that the positive relationship between variance of EPS and securitization means that banks pack high-quality assets for sell and retain the low-quality ones. The remaining assets deteriorate with securitization and bring high risk. This study also provides evidence that loan ratio and deposit are negatively related to securitization. In contrast, we

find no association between the growth rates, cost of funds, insolvency risk and securitization activities.

Taken together, these results suggest that the motives of banks securitization do depend on the costs and benefits of such activities. Although the impact of securitization is still controversial, and needs more empirical research on this issue, this study permits us to present some preliminary evidence.

Due to the data constraint, several critical determinants of bank securitization such as risk of credit enhancements, gains or losses on sale of assets and servicing fee incomes are not included in this study. Retained interests in securitization can measure the risk of credit enhancements. Banks recognize a gain on sale of assets at the time a securitization is done. The fair market value of the residual class which generally retained by the banks often tends to drive a transaction. Besides, banks can generate incomes from securitization by charging fees for originating loans, documenting the transaction or collecting payments. It is possible that these three elements affect the bank securitization activities, but limited or unavailable data may prevent us from discussing the issue completely. Finally, this study can also be extended to investigate the extent of the banks' securitization activities.